



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

DATE: February 22, 2021

TO: Sen. Senator Blasdel, Senate President
Rep. Wylie Galt, House Speaker
Sen. Brian Hoven, Chair, Senate Tax Committee
Rep. Becky Beard, Chair, House Tax Committee
Sen. Cary Smith, Senate Majority Leader
Rep. Sue Vinton, House Majority Leader
Sen. Jill Cohenour, Senate Minority Leader
Rep. Kim Abbott, House Minority Leader

FROM: LFD Revenue Team

RE: General Fund Revenue Forecast Update #2

GENERAL FUND REVENUE SUMMARY

This is the second of the monthly revenue forecast updates throughout the 2021 Session designed to brief the legislature on recent economic trends and the corresponding outlook for the 2023 Biennium general fund revenue estimate. This update is based on actual revenue collections received through the end of January 2021 and updated national and Montana forecasts from IHS.

Forecast Update Based on New Data

The February economic forecasts from IHS combined with LFD revenue models generates a general fund revenue forecast that is \$300.4 million higher than the official estimate in HJ 2 over the three-year forecast period. This is \$20.6 million higher than January forecast update. The table below shows the HJ 2 estimate and the LFD February update based on revised assumptions.

February LFD General Fund Revenue Estimate Update (\$ Millions)					
FY	HJ 2	February Update	\$ Difference	HJ 2 Growth	February Update Growth
2020	\$2,533.3	\$2,533.3			
2021	2,469.2	2,535.3	66.1	-2.5%	0.1%
2022	2,537.7	2,639.5	101.8	2.8%	4.1%
2023	2,647.7	2,780.2	132.6	4.3%	5.3%
3-Year	\$7,654.6	\$7,955.0	\$300.4		

The HJ 2 estimate included an adjustment to individual income tax and liquor and lottery profits, totaling \$34.1 million per year, with \$30.1 million being in the form of an adjustment to individual income taxes. Based on YTD collections and other modeling, the LFD baseline estimate does not include the RIC adjustment to individual income taxes. The table below shows the LFD baseline estimate if all the RIC adjustments are incorporated.

February LFD General Fund Revenue Estimate Update (\$ Millions)						
FY	HJ 2	February Update	LFD Update with RIC Adjustments	HJ 2 Growth	February Update Growth	RIC Adjusted Growth
2020	\$2,533.3	\$2,533.3	\$2,533.3			
2021	2,469.2	2,535.3	2505.1	-2.5%	0.1%	-1.1%
2022	2,537.7	2,639.5	2609.3	2.8%	4.1%	4.2%
2023	2,647.7	2,780.2	2750.1	4.3%	5.3%	5.4%
3-Year	\$7,654.6	\$7,955.0	\$7,864.5			

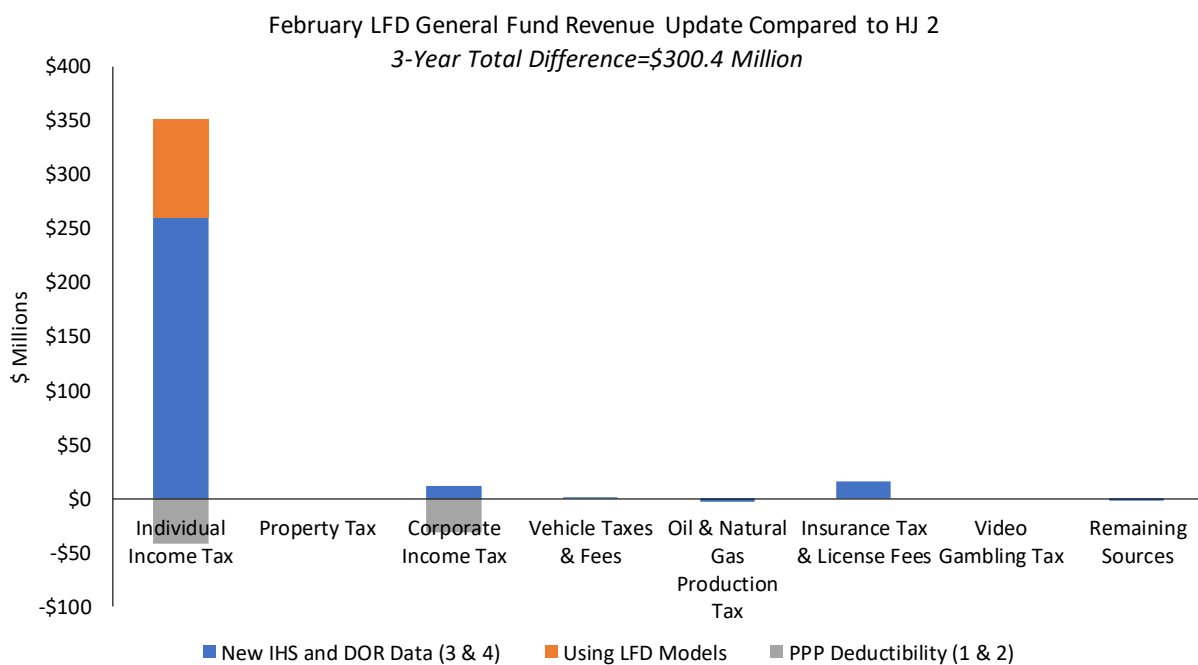
Changes from January

The improvement above HJ 2 last month was largely driven by an improved IHS outlook compared to October, with one of the largest improvements being wage growth in CY 2020 increasing from -0.6% to 3.8%. While the new IHS forecast for February remained relatively unchanged since January, the following new changes were incorporated into the LFD baseline forecast.

1. In January the LFD had assumed the impact from the first round of Payment Protection Program (PPP) loans would occur in FY 2021. This impact would be in the form of reduced revenues, as federal legislation that passed in December stated that these loans not be included as income but could be included as a business expense. In the January update this resulted in a \$73.9 million reduction to FY 2021. Due to the possibility that many filers will file on extension, this impact is now split evenly between FY 2021 and FY 2022.

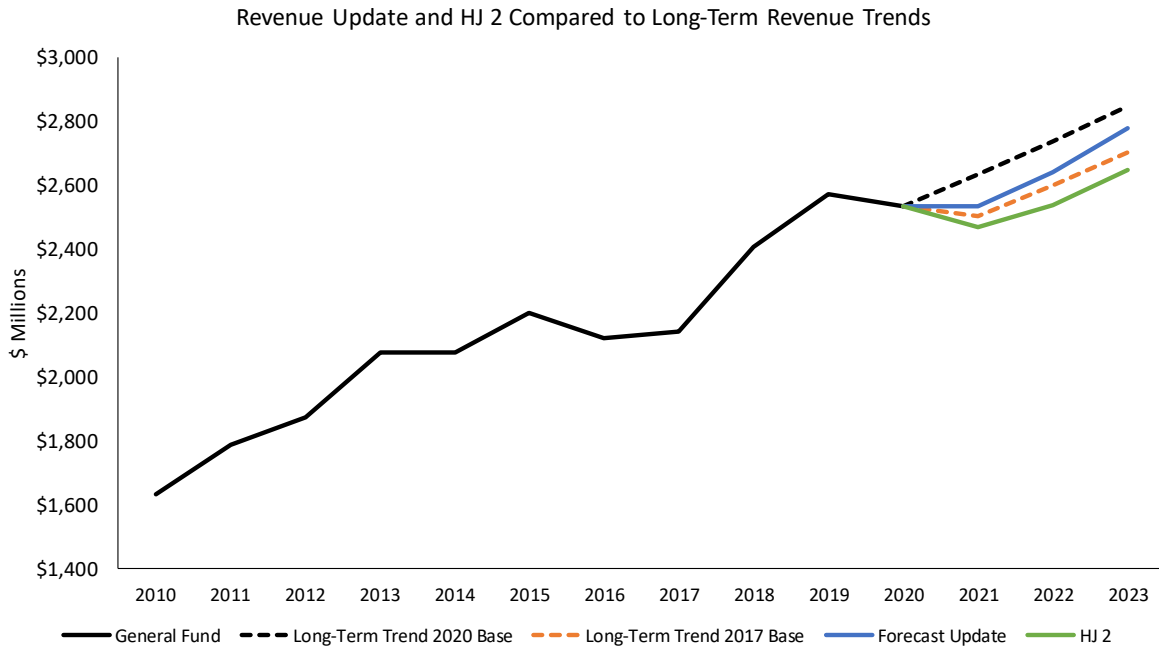
2. As part of The Consolidated Appropriations Act, a second round of PPP loans were approved. To date, Montana corporations and businesses have received \$465 million in these loans. The February estimate assumes this will lower revenues by \$9.8 million in both FY 2022 and FY 2023. Annually, \$4.2 million of the reduction is estimated to occur in corporate income tax and the remaining \$5.6 million in individual income tax.
3. The newest Department of Revenue data on individual income returns included extension filers that were not included in past estimates. Previously, the LFD had to estimate the tax liability associated with these extension returns, and given the new data, shows that it was underestimated by about \$15 million per year.
4. The updated February IHS remained relatively unchanged from the January update, and did not significantly impact the forecast.

The LFD February update changes compared to HJ 2 are shown in the graph below, with fiscal year detail provided in the table.



	FY 2021	FY 2022	FY 2023	3-Year Total
Individual Income Tax	\$79.3	\$108.0	\$121.2	\$308.4
Property Tax	-	-	-	-
Corporate Income Tax	(13.3)	(10.7)	3.6	(20.4)
Vehicle Taxes & Fees	0.0	0.5	0.8	1.3
Oil & Natural Gas Tax	(0.4)	(1.3)	(1.2)	(2.9)
Insurance Tax	2.4	6.8	7.0	16.2
Video Gaming Tax	-	-	-	-
Remaining Sources	(1.9)	(1.5)	1.2	(2.2)
General Fund Total	\$66.1	\$101.8	\$132.6	\$300.4

The chart below shows how the updated forecast compares to historical revenues, the long-term general fund revenue trend starting at two different time points, and HJ 2.



FY	HJ 2	February Update	Long-Term Trend 2020 Base	Long-Term Trend 2017 Base
2020	\$2,533.3	\$2,533.3	\$2,533.3	\$2,533.3
2021	2,469.2	2,535.3	2,633.7	2,501.5
2022	2,537.7	2,639.5	2,738.0	2,600.6
2023	2,647.7	2,780.2	2,846.5	2,703.6
3-Year	\$7,654.6	\$7,955.0	\$8,218.2	\$7,805.8

Next Steps

Updated revenue forecasts will be published monthly throughout the 2021 Session. The next report will be available in the second half of March.

In addition, new data will be available and incorporated into the LFD March general fund revenue forecast update. Key sources of new data include the following:

- IHS National & Montana economic forecasts
- IHS reports and analysis
- SABHRS revenue collection data through February
- Board of Oil & Gas production data
- Department of Revenue detailed collection data through February

APPENDIX

YEAR-TO-DATE GENERAL FUND REVENUE

FY 2021 general fund revenues through the end of January are \$126.1 million or 8.1% above FY 2020 revenues through the same period. Ongoing revenue growth, which excludes one-time-only revenues is currently 7.8% above the FY 2020 values through the same time period. While revenue growth has been strong thus far, it is expected that the state will issue a significant amount in refunds in February-April, as individuals recognize losses caused by the Covid-19 public health crisis and take advantage of the federal tax provisions that were part of the CARES Act and impact state income taxes.

General Fund Revenue Monitoring Report (\$ Millions)

Revenue Source	Actual FY 2020	HJ 2 FY 2021	HJ 2 Est. % Change	Jan FY 2020	Jan FY 2021	YTD Difference	YTD % Change	YTD % Change
Largest Seven Sources								
Individual Income Tax	\$1,435.240	\$1,404.584	-2.1%	\$980.575	\$1,098.060	\$117.485	12.0%	
Property Tax	308.610	313.021	1.4%	167.256	175.743	8.487	5.1%	
Corporate Income Tax	187.358	156.256	-16.6%	114.498	122.522	8.024	7.0%	
Vehicle Taxes & Fees	108.482	109.273	0.7%	58.593	59.116	0.523	0.9%	
Oil & Natural Gas Taxes	38.380	36.488	-4.9%	11.291	7.272	(4.018)	-35.6%	
Insurance Tax	82.489	86.072	4.3%	30.874	32.846	1.971	6.4%	
Video Gaming Tax	57.447	60.320	5.0%	32.215	31.358	(0.856)	-2.7%	
Other Business Taxes								
Drivers License Fee	4.410	4.029	-8.6%	2.436	2.383	(0.052)	-2.1%	
Investment Licenses	15.711	16.385	4.3%	1.546	15.058	13.512	873.7%	
Lodging Facilities Sales Tax	25.058	20.878	-16.7%	13.932	12.474	(1.458)	-10.5%	
Public Contractor's Tax	6.729	4.987	-25.9%	5.360	4.138	(1.222)	-22.8%	
Railroad Car Tax	4.294	4.305	0.3%	3.330	3.712	0.382	11.5%	
Rental Car Sales Tax	4.224	3.823	-9.5%	2.238	2.003	(0.236)	-10.5%	
Retail Telecom Excise Tax	11.788	10.954	-7.1%	3.819	3.987	0.167	4.4%	
Other Natural Resource Taxes								
Coal Severance Tax	10.920	10.966	0.4%	4.557	3.395	(1.163)	-25.5%	
Electrical Energy Tax	3.910	4.480	14.6%	1.882	1.370	(0.513)	-27.2%	
Metal Mines Tax	8.724	9.922	13.7%	0.069	0.000	(0.069)	-100.0%	
U.S. Mineral Leasing	18.527	18.729	1.1%	7.979	5.434	(2.545)	-31.9%	
Wholesale Energy Trans Tax	3.351	3.467	3.4%	1.151	1.344	0.192	16.7%	
Other Interest Earnings								
Coal Trust Interest Earnings	21.600	17.904	-17.1%	8.441	7.645	(0.796)	-9.4%	
TCA Interest Earnings	18.597	2.740	-85.3%	11.450	2.109	(9.341)	-81.6%	
Other Consumption Taxes								
Beer Tax	3.167	3.102	-2.1%	1.622	1.703	0.081	5.0%	
Cigarette Tax	26.983	27.045	0.2%	15.683	16.847	1.164	7.4%	
Liquor Excise Tax	23.786	24.930	4.8%	12.271	14.593	2.322	18.9%	
Liquor Profits	18.080	15.800	-12.6%	-	-	-	-	
Lottery Profits	8.073	13.144	62.8%	1.806	2.647	0.841	46.6%	
Tobacco Tax	5.754	5.724	-0.5%	3.037	2.960	(0.077)	-2.5%	
Wine Tax	2.522	2.579	2.3%	1.327	1.432	0.104	7.8%	
Other Sources								
All Other Revenue	46.062	44.685	-3.0%	38.630	21.880	(16.750)	-43.4%	
Highway Patrol Fines	3.458	3.691	6.7%	1.801	1.642	(0.160)	-8.9%	
Nursing Facilities Fee	4.188	3.992	-4.7%	1.607	1.434	(0.172)	-10.7%	
Public Institution Reimbursements	12.745	12.555	-1.5%	5.910	6.312	0.402	6.8%	
Tobacco Settlement	2.654	12.406	367.4%	-	9.860	9.860	-	
Ongoing Revenue Subtotal	2,529.221	2,459.391	-2.8%	1,543.090	1,663.437	120.347	7.8%	
OTO Revenue & Transfers Subtotal	4.100	9.843	-	4.100	9.843	5.743	-	
Grand Total	\$2,533.321	\$2,469.234	-2.5%	\$1,547.190	\$1,673.279	\$126.090	8.1%	

MAJOR SOURCES

Individual Income Tax: YTD Above Estimate, but expected to end the year near the estimate

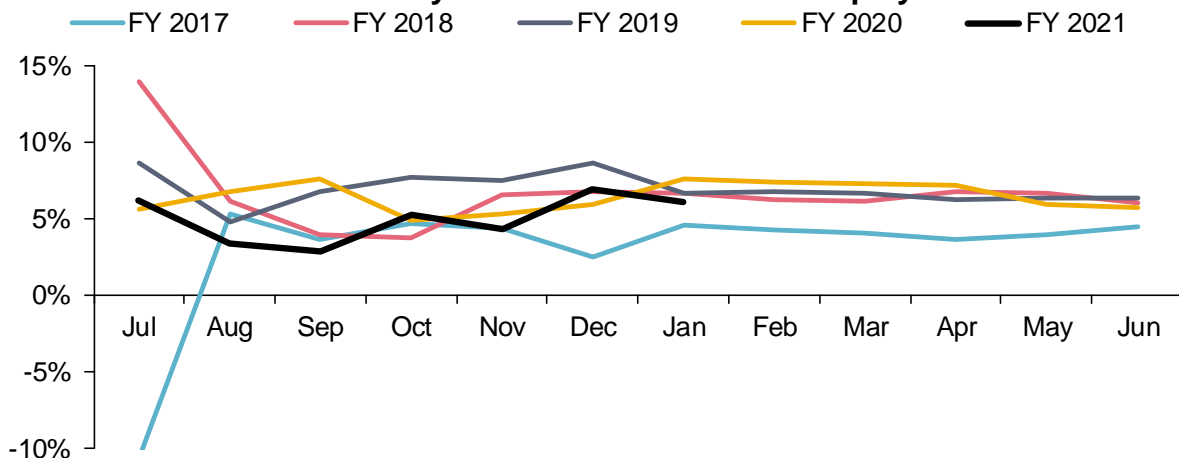
Individual income tax collections through the end of January are \$117.5 million or 12.0% above the year-to-date collections in FY 2020, and currently above the decline of 2.1% anticipated in HJ 2. Withholding growth has remained strong, but the growth of 33.5% in estimated payments is the result of an additional quarter of estimated payments from FY 2020 that was booked to FY 2021. This money will ultimately be attributed to FY 2021. but a true comparison, with this payment removed, shows 6.6% growth in estimated payments.

Individual Income Tax (\$ Millions)

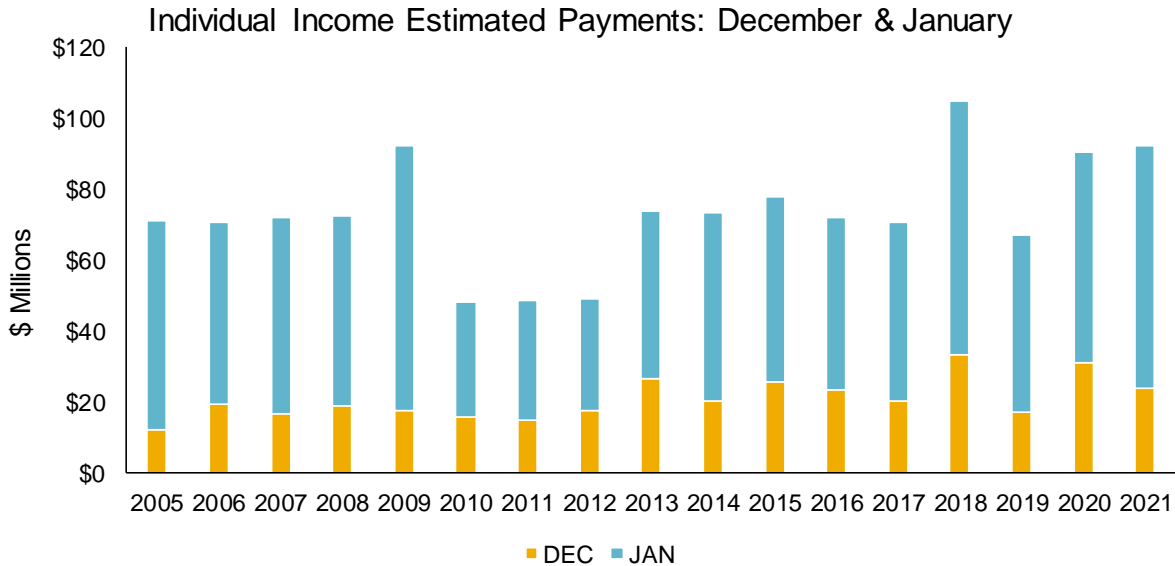
Account	YTD 2021	YTD 2020	\$ Difference	% Difference
Withholding	\$682.5	\$643.7	\$38.9	6.0%
Estimated Payments	272.8	204.3	68.5	33.5%
Current Year Payments	31.1	26.8	4.2	15.8%
Audit, P&I, Amended	26.7	23.2	3.5	15.1%
Refunds	62.6	66.8	(4.2)	-6.2%
Partnership Income Tax	19.2	11.0	8.2	74.8%
Mineral Royalties	3.2	4.8	(1.6)	-33.6%
Total	1,098.1	980.6	117.5	12.0%

Withholding accounts for over two-thirds of individual income tax and about one-third of total general fund revenue and is continuing to show year-over-year growth compared to FY 2020 collections. As shown in the following chart, withholding growth tends to be relatively variable in the first half of the year, but stabilizes by February, allowing for potential assessments of overall fiscal year withholding growth.

Cumulative year-over-year withholding growth may decrease throughout the remainder of the fiscal year due to increased unemployment.



The timing of estimated payments can fluctuate between December and January, but upon conclusion of January these two months payments were nearly identical to last year's. However, it is very possible that individuals payed their taxes under safe harbor, due to uncertainty in their tax liability for tax year 2020. If an individual pays 100% of their tax owed from the previous year, the IRS does not charge an underpayment penalty. If in fact individuals and businesses paying under safe harbor have lower taxable incomes in tax year 2020 compared to tax year 2019, substantial refunds in the spring of 2021 will materialize and lower individual income tax collections.



Property Tax: Currently Slightly Above Estimate

Property tax collections are above last year by \$8.5 million or 5.1%. Only one of two large property tax payments has been made, and property tax is still anticipated to come in close to the HJ 2 estimate.

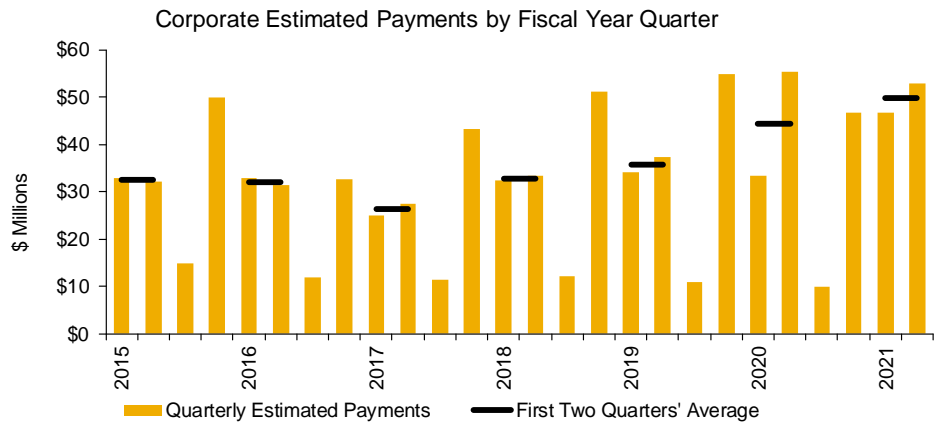
Corporate Income Tax: YTD Above Estimate, but expected to end the year near the estimate

Corporate income tax collections through the end of January are 7.0% or \$8.0 million above this time in FY 2020. This is above the expected decline of 16.6% contained in the HJ 2 estimate. However, similarly to individual income tax, it is possible that significant refunds may be administered in February through April if corporations overpaid on their estimated taxes during TY 2020.

Corporate Income Tax (\$ Millions)

Account	YTD 2021	YTD 2020	\$ Difference	% Difference
Corporation Tax	\$20.2	\$24.1	(\$3.9)	-16.2%
Estimated Payments	\$103.7	\$92.0	11.7	12.7%
Refunds	(6.4)	(7.7)	1.2	-16.2%
Audit, P&I, Amended	5.0	6.0	(1.0)	-16.4%
Total	\$122.5	\$114.5	\$8.0	7.0%

The adjacent chart shows that estimated payments in the first two quarters of FY 2021 are above the estimated payments collected in recent years. Estimated payments typically make up 80% of total corporation income tax collections, so they're the ultimate driver of where final collections end up.

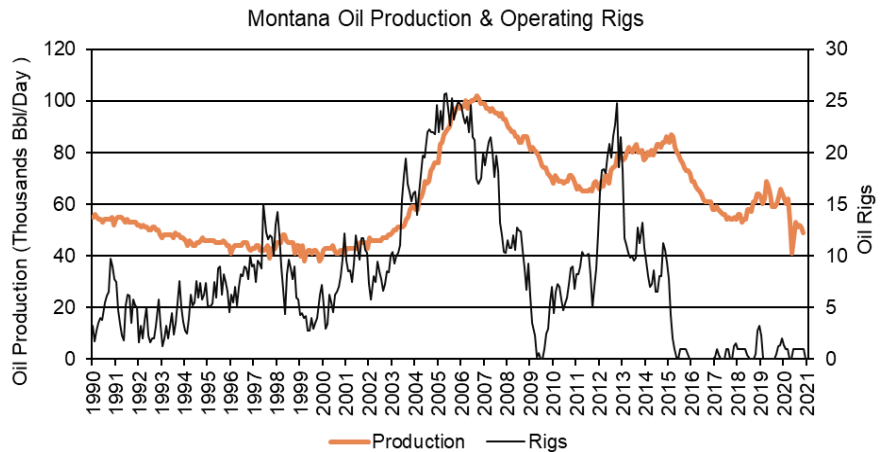


Vehicle Fees & Taxes: Slightly Above Estimate, but expected to end the year near the estimate

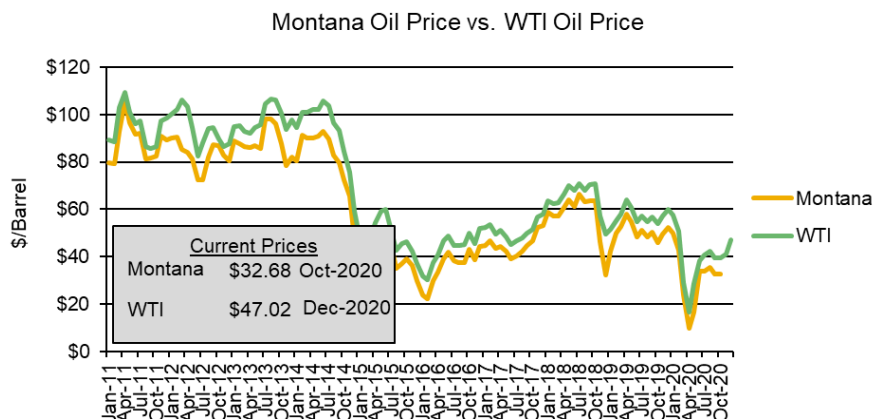
Vehicle taxes and fees are 0.9% or \$0.523 million above collections at this time last year. In HJ 2, this source was expected to grow by 0.7%. This is a stable revenue source and it is likely that final collections will end up relatively close to the HJ 2 estimate.

Oil & Natural Gas Production Tax: Currently Below Estimate

After the first payment was posted to the state accounting system in January, Oil and natural gas production tax collections are currently 35.6% or \$4 million below collections at this time last year, which is tracking well below the HJ 2 estimated decline of 4.9%. The primary driver behind this is the combination of a substantial decline in oil prices in Q1 of FY 2021 compared to the same period of FY 2020, and a similar decline in production over this period as well. Although the decline is significant, there is positive news looking forward as WTI spot prices have been steadily rising into the low to mid-fifties over the past month.



As the chart on the previous page indicates, there was a significant decline in production in early 2020 which was the result of a sharp decline in prices due to the economic impacts of the Covid-19 pandemic (shown in the chart to the right). If prices continue on a positive trend, it is likely that final collections will approach the HJ 2 estimate.



Insurance Tax: Currently Above Estimate

Current insurance tax collections are 6.4% or \$2.0 million above FY 2020 through January. This source has followed a steady pattern of growth over the past few years and is currently anticipated to come in above the HJ 2 estimate.

Video Gaming Tax: Currently Above Estimate

Revenue from video gambling is currently \$0.9 million or 2.7% below collections from the same time last year. Revenue from this source was originally forecast to remain fairly flat throughout the 2021 biennium. However, the source experienced strong growth through the first half of the fiscal year and will likely finish the year over the estimate despite the year-to-date decline in January.

OTHER KEY DIFFERENCES:

Coal Severance Tax: Currently Below Estimate

Year-to-date coal severance tax collections are currently \$1.1 million, or 25.5% below collections from last year. Production continues to decline in the state, and this drop has been driven by the closures of Colstrip Units 1 & 2, though declined production has been seen statewide, not just at the mine that fuels Colstrip.

U.S. Mineral Royalties: Currently Well Below Estimate

U.S. mineral royalties are down 31.9% or \$2.5 million compared to FY 2020 levels at this time. Mineral royalty payments can be sporadic, so a portion of this decrease may be due to timing. It is also likely that some of this decline from the previous year is also due to poor performance in the coal and oil industries, which contribute heavily to royalty collections. This source was expected to grow by 1.1% in the HJ 2 estimate.

TCA Interest Earnings: Lower and consistent with estimate

Treasury cash account interest earnings are \$9.3 million or 81.6% below collections last year at this time, but slightly above the HJ 2 anticipated decline of 85.3%. The decline has been driven by short term interest rates that are near zero. Interest rates are expected to remain at these low levels so this source will likely finish close to the HJ 2 estimate.

Lodging Facilities Sales Tax: Lower than last year, but performing better than estimate

Lodging facilities sales tax collections are currently \$1.458 million or 10.5% below collections at this time last year. This source was expected to decline by 16.7%, so current collections are performing slightly better than expected in HJ 2. Although lodging taxes are down overall throughout the state, areas that receive higher volumes of tourist visitation, such as the areas around Yellowstone and Glacier, have generally recovered more quickly than expected. It is likely that final collections will end around the HJ 2 forecast.

Cigarette Tax: Currently Above Estimate

Year-to-date cigarette tax collections came in \$1.2 million or 7.4% higher than this time last year. While most months resembled last year's collections, September collections during the current fiscal year were abnormally high and account for most of the growth in this source.

Liquor Excise Tax: Above Estimate

Liquor excise tax actuals came in 18.9% or \$2.3 million above this time last year. Year-to-date growth for the first half of the fiscal year has averaged less than 6% over the last 5 fiscal years.

Investment Licenses: Well Above Estimate due to timing

Current collections for investment licenses are significantly higher than at this time last year, which is due to a timing issue with payments. Last year a large payment was posted to the accounting system in February,

whereas this year a large payment was posted in January. This source will likely end close to the final HJ 2 estimate.

All Other Revenue: Below Estimate due to timing

All Other revenue collections are currently shown to be down about 43% compared to this time in FY 2020. The reason for this is that a large payment was booked to the accounting system in January of 2020 that was then removed in February. This source is likely tracking close to the HJ 2 estimate and consistently with last year.

Tobacco Settlement: One Time Windfall and consistent with estimate

Year-to-date collections are \$9.9 million greater than this time last year. Tobacco settlement revenue is usually not received until April. However, due to a legal settlement in December the state received payment for all disputed payments withheld by tobacco companies since the inception of the settlement. Of the total recovery of \$53.7 million in withheld payments the general fund received its typical disbursement of 11%, plus all interest accrued on the withheld payments. The state will still collect the normal payment in April and the general fund will likely receive approximately \$2.5 million more at that time.